



## Optional Retirement Plan (ORP) Funding Issue -- General Fund is Subsidizing Some Costs That Should be Funded from Non-State Funds

The Montana University System (MUS) requires newly hired faculty, administrative, and professional staff under Board of Regent contract to join the Optional Retirement Program (ORP) (a defined contribution retirement plan). As the employer, the Montana University System pays the employer contributions for those MUS employees participating in the ORP.

HB95 passed by the 2007 Legislature increased the employer's share of the ORP retirement plan by 1 percentage point (from 4.956% to 5.956%) and funded the 1 percentage point increase with a statutory general fund appropriation, regardless of the fund source that pays the salary and benefit costs (including the 4.956% employer contribution to the ORP) of those positions participating in the ORP plan. HB 95 was codified in Section 19-21-203, MCA and the statutory appropriation was added to the statutory list in Section 17-7-502, MCA.

In FY 2008, approximately 30 percent of the salary and benefit costs of positions participating in the ORP plan were funded from non-state sources, yet state general fund bore 100 percent of the cost increase authorized in HB 95. For the 2011 biennium, the total projected cost of the 1 percentage point increase in employer contributions relating to HB 95 is \$3.9 million. **Thirty percent of this cost is \$1.2 million.** The legislature could make this \$1.2 million general fund available for other state priorities in the 2011 biennium and beyond by amending statute to restrict the general fund statutory appropriation for positions that are funded by state funds. Positions that are funded by non-state funds would receive the additional 1 percent employer contribution increase, but the funding would come from non-state funds through the regular MUS budget process.

The legislature may also want to consider eliminating the statutory appropriation and fund the increased employer contribution in the general appropriations act, as approximately 80 percent of the total employer ORP contribution (the 4.956% portion) is currently included in the general appropriations act. Note: The state percent share of funding for the Montana University System that is determined by the legislature each session directly impacts how much of the employer ORP contribution is funded by the state. The current statutory appropriation funds the increase 100 percent from general fund.

### Options

Option 1: Request a committee bill that restricts the statutory general fund appropriation for use toward state funded positions only. This would reduce general fund costs by \$1.2 million in the 2011 biennium.

Option 2: Request a committee bill that eliminates the statutory general fund appropriation in 19-21-203 and 17-7-502 and add the cost of the additional employer ORP contribution authorized in HB 95 (2007 Legislature) for state-funded positions only to the general appropriations act, funded by general fund. This option would also reduce overall general fund costs by \$1.2 million in the 2011 biennium. In addition, this option would hold the university system harmless from funding changes for this additional cost, at least for the 2011 biennium.

(over)

Option 3: Same as Option 2, but fund the cost of the additional employer ORP contribution for state-funded positions at the same state percent share that will ultimately be determined by the legislature during the 2009 Legislature. This option would cost the general fund less than Option 2, but would likely require increased tuition rates, as the cost is mandated in statute.

Option 4: Take no action.